



Attachment 2

*Andrew Junkin
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Managing Director*

November 23, 2008

Ms. Anne Stausboll
Interim Chief Investment Officer
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Affiliate Funds Policy Revision

Dear Anne,

You requested Wilshire's opinion with respect to Staff's proposed revisions to the Statement of Investment Policy for Affiliate Funds. Specifically, Staff has added language about the rebalancing process used to manage the asset allocation of each of the funds.

Recommendation

Wilshire recommends that the Policy Subcommittee approve the changes.

Background

There are two key components of the revisions. First, the proposed language explicitly states that the Investment Committee will set both the target and ranges for each asset class used in each of the Affiliate Fund's asset allocations. This appropriately delineates the role of the Investment Committee, working with Staff and the General Consultant.

Second, the proposed language declares that Staff is responsible for rebalancing the asset allocations of each of the Affiliate Funds as relative market returns drag asset class weights away from their targets. Staff is granted some flexibility in terms of the timing of the rebalancing transactions, if the market conditions preclude an orderly rebalancing transaction. In addition, Staff would be allowed to use derivatives to rebalance, if that was deemed an effective and appropriate method of rebalancing. This flexibility with regards to timing and the use of derivatives are both permitted for the PERF, so these changes would put the Affiliate Funds on equal footing with the PERF.

Conclusion

Wilshire believes that the changes in the Policy are appropriate and add clarity to the roles that the Investment Committee and Staff plan in setting the strategic targets for the Affiliate Funds and managing the assets of the Affiliate Funds to achieve appropriate risk adjusted returns. The changes to this Policy allow Staff to effectively and efficiently manage the assets for each of the Affiliate funds and are similar to the protocols used by the PERF.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

A handwritten signature in black ink, appearing to read "Alan Jinn". The signature is fluid and cursive, with a large loop at the end.